



TOWNSHIP OF PENTLAND
Luce County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended March 31, 2005

AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Township of Pentland	County Luce
Audit Date March 31, 2005	Opinion Date May 23, 2005	Date Accountant Report Submitted to State: June 9, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|--|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686	City Bay City	State MI	Zip 48707
Accountant Signature Campbell, Kusterer & Co., P.C.			

TOWNSHIP OF PENTLAND
Luce County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

May 23, 2005

To the Township Board
Township of Pentland
Luce County, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities and each major fund of Township of Pentland, Luce County, Michigan as of and for the year ended March 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Township of Pentland's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities and each major fund of the Township of Pentland, Luce County, Michigan as of March 31, 2005, and the respective changes in financial position and cash flows where applicable, of these activities and funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of April 1, 2004.

In accordance with Government Auditing Standards, we have also issued our report dated May 23, 2005, on our consideration of the Township of Pentland's internal control over financial reporting and on tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Township's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

TOWNSHIP OF PENTLAND
Luce County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2005

The Management's Discussion and Analysis report of the Township of Pentland covers the Township's financial performance during the year ended March 31, 2005.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year. Net assets at March 31, 2005, totaled \$523,028.65 for governmental activities and \$2,013,663.78 for business-type activities. Overall total capital assets remained approximately the same.

Overall revenues were \$481,805.30 (\$249,318.74 from governmental activities and \$232,486.56 from business-type activities). Governmental activities had a \$60,897.82 increase in net assets. Business-type activities had a decrease in net assets of \$662.04.

Taxable value increased by approximately \$1,767,340.00 or 5.5%.

We did not incur any new debt.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present government and business-type activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net assets includes all of the Township's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

TOWNSHIP OF PENTLAND
Luce County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2005

ENTITY-WIDE FINANCIAL STATEMENTS (continued)

All of the activities of the Township are reported as governmental activities and business-type activities. These include the General Fund, the Liquor Fund, the Water Fund, the Sewer Fund, and the Current Tax Collection Fund.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Township has the following types of funds:

Governmental Funds: Some of the Township's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Township's governmental funds include the General Fund and the Liquor Fund.

Business-Type Funds: The Township has a Water Fund and a Sewer Fund which include the activity of providing water and sewer to Township residents.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Our cash position in both the governmental and business-type activities remain strong.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

The General Fund pays for most of the Township's governmental services. The most significant was fire protection which incurred expenses of \$47,119.80. The Water and Sewer Funds incurred \$77,157.65 in depreciation expense and \$155,990.95 in other expenses.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Township's governmental activities invested \$0 in capital assets.

The Township's business-type activities invested \$0 in capital assets.

The Township's governmental activities paid \$0 of principal on the contract payable.

The Township's business-type activities paid \$18,250.00 of principal on the water and sewer bonds payable.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The future of state revenue sharing is very clouded and it represents 69% of our income. We continue to grow at a moderate rate in taxable values with little demand for infrastructure, except good roads and water, where available.

CONTACTING THE TOWNSHIP'S MANAGEMENT

This financial report is designed to provide our taxpayers, creditors, investors and customers with a general overview of the Township's finances and to demonstrate the Township's accountability for the revenues it receives. If you have any questions concerning this report please contact the Township Clerk or Township Treasurer at 906-293-5857.

TOWNSHIP OF PENTLAND
Luce County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
March 31, 2005

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS:			
Current assets:			
Cash in bank	172 820 25	77 562 80	250 383 05
Accounts receivable	-	25 418 10	25 418 10
Taxes receivable	<u>3 885 87</u>	<u>-</u>	<u>3 885 87</u>
Total current assets	<u>176 706 12</u>	<u>102 980 90</u>	<u>279 687 02</u>
Restricted assets:			
Cash in bank	<u>-</u>	<u>61 875 00</u>	<u>61 875 00</u>
Total restricted assets	<u>-</u>	<u>61 875 00</u>	<u>61 875 00</u>
Capital assets:			
Capital assets	60 200 00	3 857 882 00	3 918 082 00
Accumulated depreciation	<u>(50 200 00)</u>	<u>(887 997 85)</u>	<u>(938 197 85)</u>
Total capital assets	<u>10 000 00</u>	<u>2 969 884 15</u>	<u>2 979 884 15</u>
TOTAL ASSETS	<u><u>186 706 12</u></u>	<u><u>3 134 740 05</u></u>	<u><u>3 321 446 17</u></u>
LIABILITIES AND NET ASSETS:			
Current liabilities:			
Accounts payable	94 74	-	94 74
Due to other units	230 00	-	230 00
Internal balances	(336 647 27)	336 647 27	-
Accrued interest payable	-	679 00	679 00
Current portion of long-term debt	<u>-</u>	<u>18 500 00</u>	<u>18 500 00</u>
Total current liabilities	<u>(336 322 53)</u>	<u>355 826 27</u>	<u>19 503 74</u>
Long-term liabilities:			
Bonds payable	-	783 750 00	783 750 00
Less current portion	<u>-</u>	<u>(18 500 00)</u>	<u>(18 500 00)</u>
Total long-term liabilities	<u>-</u>	<u>765 250 00</u>	<u>765 250 00</u>
Net assets:			
Invested in capital assets, net of related debt	10 000 00	1 849 486 88	1 859 486 88
Restricted for debt service	-	61 875 00	61 875 00
Unrestricted	<u>513 028 65</u>	<u>102 301 90</u>	<u>615 330 55</u>
Total net assets	<u>523 028 65</u>	<u>2 013 663 78</u>	<u>2 536 692 43</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>186 706 12</u></u>	<u><u>3 134 740 05</u></u>	<u><u>3 321 446 17</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF PENTLAND
Luce County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended March 31, 2005

	<u>Expenses</u>	<u>Program Revenue</u> <u>Charges for Services</u>	<u>Governmental Activities</u> <u>Net (Expense)</u> <u>Revenue and</u> <u>Changes in Net</u> <u>Assets</u>
FUNCTIONS/PROGRAMS			
Governmental Activities:			
Legislative	1 582 40	-	(1 582 40)
General government	110 974 89	14 659 68	(96 315 21)
Public safety	49 647 80	-	(49 647 80)
Public works	6 776 83	-	(6 776 83)
Recreation and culture	575 00	-	(575 00)
Other	18 864 00	-	(18 864 00)
Total Governmental Activities	<u>188 420 92</u>	<u>14 659 68</u>	<u>(173 761 24)</u>
Business-Type Activities:			
Water and sewer	233 148 60	230 590 79	-
Total Business-Type Activities	<u>233 148 60</u>	<u>230 590 79</u>	<u>-</u>
Total Government	<u>421 569 52</u>	<u>245 250 47</u>	<u>(173 761 24)</u>
General Revenues:			
Property taxes			29 786 75
Other taxes			26 235 72
State revenue sharing			170 328 60
Interest			3 220 49
Miscellaneous			5 087 50
Total General Revenues			<u>234 659 06</u>
Change in net assets			60 897 82
Net assets, beginning of year			<u>462 130 83</u>
Net Assets, End of Year			<u>523 028 65</u>

The accompanying notes are an integral part of these financial statements.

<u>Business-Type Activities</u>	<u>Total</u>
<u>Net (Expense) Revenue and Changes in Net Assets</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
-	(1 582 40)
-	(96 315 21)
-	(49 647 80)
-	(6 776 83)
-	(575 00)
-	(18 864 00)
-	(173 761 24)
<u>(2 557 81)</u>	<u>(2 557 81)</u>
<u>(2 557 81)</u>	<u>(2 557 81)</u>
<u>(2 557 81)</u>	<u>(176 319 05)</u>
-	29 786 75
-	26 235 72
-	170 328 60
1 895 77	5 116 26
-	5 087 50
<u>1 895 77</u>	<u>236 554 83</u>
(662 04)	60 235 78
<u>2 014 325 82</u>	<u>2 476 456 65</u>
<u>2 013 663 78</u>	<u>2 536 692 43</u>

TOWNSHIP OF PENTLAND
Luce County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS
March 31, 2005

	<u>General</u>	<u>Other Funds</u>	<u>Total</u>
<u>Assets</u>			
Cash in bank	170 233 84	2 425 75	172 659 59
Taxes receivable	3 885 87	-	3 885 87
Due from other funds	<u>336 807 93</u>	<u>-</u>	<u>336 807 93</u>
Total Assets	<u>510 927 64</u>	<u>2 425 75</u>	<u>513 353 39</u>
<u>Liabilities and Fund Equity</u>			
Liabilities:			
Accounts payable	94 74	-	94 74
Due to other units	<u>230 00</u>	<u>-</u>	<u>230 00</u>
Total liabilities	<u>324 74</u>	<u>-</u>	<u>324 74</u>
Fund equity:			
Fund balances:			
Unreserved:			
Undesignated	<u>510 602 90</u>	<u>2 425 75</u>	<u>513 028 65</u>
Total fund equity	<u>510 602 90</u>	<u>2 425 75</u>	<u>513 028 65</u>
Total Liabilities and Fund Equity	<u>510 927 64</u>	<u>2 425 75</u>	<u>513 353 39</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF PENTLAND
Luce County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
March 31, 2005

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS 513 028 65

Amounts reported for governmental activities in the statement of
net assets are different because –

Capital assets used in governmental activities are not financial resources and
therefore are not reported in the governmental funds balance sheet:

Capital assets at cost	60 200 00
Accumulated depreciation	<u>(50 200 00)</u>

TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES 523 028 65

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF PENTLAND
Luce County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
Year ended March 31, 2005

	<u>General</u>	<u>Other Funds</u>	<u>Total</u>
Revenues:			
Property taxes	29 786 75	-	29 786 75
Other taxes – swamp tax	26 235 72	-	26 235 72
State revenue sharing	167 903 10	2 425 50	170 328 60
Charges for services:			
Property tax administration	12 609 68	-	12 609 68
Interest	3 220 49	-	3 220 49
Rents	2 050 00	-	2 050 00
Miscellaneous	5 087 50	-	5 087 50
Total revenues	<u>246 893 24</u>	<u>2 425 50</u>	<u>249 318 74</u>
Expenditures:			
Legislative:			
Township Board	1 582 40	-	1 582 40
General government:			
Supervisor	10 567 73	-	10 567 73
Elections	2 217 13	-	2 217 13
Assessor	15 181 90	-	15 181 90
Clerk	9 399 18	-	9 399 18
Board of Review	810 85	-	810 85
Treasurer	10 685 32	-	10 685 32
Building and grounds	16 977 89	-	16 977 89
Unallocated	45 134 89	-	45 134 89
Public safety:			
Law enforcement	-	2 528 00	2 528 00
Fire protection	47 119 80	-	47 119 80
Public works:			
Highways and streets	2 080 00	-	2 080 00
Street lighting	4 696 83	-	4 696 83
Culture and recreation:			
Recreation	575 00	-	575 00
Other functions:			
Insurance	18 864 00	-	18 864 00
Total expenditures	<u>185 892 92</u>	<u>2 528 00</u>	<u>188 420 92</u>
Excess (deficiency) of revenues over expenditures	61 000 32	(102 50)	60 897 82
Fund balances, April 1	<u>449 602 58</u>	<u>2 528 25</u>	<u>452 130 83</u>
Fund Balances, March 31	<u>510 602 90</u>	<u>2 425 75</u>	<u>513 028 65</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF PENTLAND
Luce County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year ended March 31, 2005

NET CHANGES IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS 60 897 82

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense
Capital Outlay

-
-

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

60 897 82

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF PENTLAND
Luce County, Michigan

STATEMENT OF NET ASSETS – BUSINESS-TYPE FUNDS
March 31, 2005 and 2004

	<u>Sewer Fund</u>		<u>Water Fund</u>	
<u>Assets</u>	<u>3/31/04</u>	<u>3/31/05</u>	<u>3/31/04</u>	<u>3/31/05</u>
Current assets:				
Cash in bank	23 951 24	42 805 12	21 952 17	34 757 68
Accounts receivable	510 09	24 567 22	434 52	850 88
Total current assets	<u>24 461 33</u>	<u>67 372 34</u>	<u>22 386 69</u>	<u>35 608 56</u>
Restricted assets:				
Cash in bank	-	-	47 925 00	61 875 00
Total restricted assets	<u>-</u>	<u>-</u>	<u>47 925 00</u>	<u>61 875 00</u>
Fixed assets:				
Sewer system	963 624 00	963 624 00	-	-
Water system	-	-	2 894 258 00	2 894 258 00
Accumulated depreciation	(426 090 16)	(445 362 65)	(384 750 04)	(442 635 20)
Net fixed assets	<u>537 533 84</u>	<u>518 261 35</u>	<u>2 509 507 96</u>	<u>2 451 622 80</u>
Total Assets	<u>561 995 17</u>	<u>585 633 69</u>	<u>2 579 819 65</u>	<u>2 549 106 36</u>
<u>Liabilities and Net Assets</u>				
Current liabilities:				
Due to other funds	234 000 00	247 837 27	90 810 00	88 810 00
Accrued interest payable	679 00	679 00	-	-
Current portion of long-term debt	7 250 00	7 500 00	11 000 00	11 000 00
Total current liabilities	<u>241 929 00</u>	<u>256 016 27</u>	<u>101 810 00</u>	<u>99 810 00</u>
Long-term liabilities:				
Bonds payable	93 000 00	85 750 00	709 000 00	698 000 00
Less current portion	(7 250 00)	(7 500 00)	(11 000 00)	(11 000 00)
Total long-term liabilities	<u>85 750 00</u>	<u>78 250 00</u>	<u>698 000 00</u>	<u>687 000 00</u>
Net assets:				
Invested in capital assets, net of related debt	210 533 84	184 674 08	1 709 697 96	1 664 812 80
Restricted for debt service	-	-	47 925 00	61 875 00
Unrestricted	23 782 33	66 693 34	22 386 69	35 608 56
Total net assets	<u>234 316 17</u>	<u>251 367 42</u>	<u>1 780 009 65</u>	<u>1 762 296 36</u>
Total Liabilities and Net Assets	<u>561 995 17</u>	<u>585 633 69</u>	<u>2 579 819 65</u>	<u>2 549 106 36</u>

The accompanying notes are an integral part of these financial statements.

Totals	
<u>3/31/04</u>	<u>3/31/05</u>

45 903 41	77 562 80
<u>944 61</u>	<u>25 418 10</u>
<u>46 848 02</u>	<u>102 980 90</u>

<u>47 925 00</u>	<u>61 875 00</u>
<u>47 925 00</u>	<u>61 875 00</u>

963 624 00	963 624 00
2 894 258 00	2 894 258 00
<u>(810 840 20)</u>	<u>(887 997 85)</u>
<u>3 047 041 80</u>	<u>2 969 884 15</u>
<u><u>3 141 814 82</u></u>	<u><u>3 134 740 05</u></u>

324 810 00	336 647 27
679 00	679 00
<u>18 250 00</u>	<u>18 500 00</u>
<u>343 739 00</u>	<u>355 826 27</u>

802 000 00	783 750 00
<u>(18 250 00)</u>	<u>(18 500 00)</u>
<u>783 750 00</u>	<u>765 250 00</u>

1 920 231 80	1 849 486 88
47 925 00	61 875 00
<u>46 169 02</u>	<u>102 301 90</u>
<u>2 014 325 82</u>	<u>2 013 663 78</u>
<u><u>3 141 814 82</u></u>	<u><u>3 134 740 05</u></u>

TOWNSHIP OF PENTLAND
Luce County, Michigan

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS – BUSINESS-TYPE FUNDS
March 31, 2005 and 2004

	Sewer Fund		Water Fund	
	<u>3/31/04</u>	<u>3/31/05</u>	<u>3/31/04</u>	<u>3/31/05</u>
Operating revenues:				
Charges for services	78 654 94	111 868 46	125 067 63	118 722 33
Miscellaneous	<u>11 967 20</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating revenues	<u>90 622 14</u>	<u>111 868 46</u>	<u>125 067 63</u>	<u>118 722 33</u>
Operating expenses:				
Wages	20 586 60	21 237 96	22 366 20	23 070 96
Benefits	1 688 71	1 643 53	1 736 76	1 943 93
Supplies	3 538 00	2 458 05	733 34	1 380 82
Utilities	3 923 55	3 729 79	8 776 94	7 626 13
Repairs and maintenance	28 556 33	19 034 40	8 578 93	11 353 77
Insurance	200 00	200 00	420 00	420 00
Treatment costs	24 071 16	23 251 91	1 711 06	1 078 64
Miscellaneous	<u>105 000 00</u>	<u>-</u>	<u>2 196 03</u>	<u>1 253 56</u>
Total operating expenses before depreciation	<u>187 564 35</u>	<u>71 555 64</u>	<u>46 519 26</u>	<u>48 127 81</u>
Operating income (loss) before depreciation	(96 942 21)	40 312 82	78 548 37	70 594 52
Less: depreciation	<u>(19 272 49)</u>	<u>(19 272 49)</u>	<u>(57 885 16)</u>	<u>(57 885 16)</u>
Operating income (loss)	<u>(116 214 70)</u>	<u>21 040 33</u>	<u>20 663 21</u>	<u>12 709 36</u>
Non-operating income and (expense):				
Interest income	458 05	660 92	576 36	1 234 85
Interest expense	<u>(5 000 00)</u>	<u>(4 650 00)</u>	<u>(32 152 50)</u>	<u>(31 657 50)</u>
Net non-operating income and (expense)	<u>(4 541 95)</u>	<u>(3 989 08)</u>	<u>(31 576 14)</u>	<u>(30 422 65)</u>
Change in net assets	(120 756 65)	17 051 25	(10 912 93)	(17 713 29)
Net assets, April 1	<u>355 072 82</u>	<u>234 316 17</u>	<u>1 790 922 58</u>	<u>1 780 009 65</u>
Net Assets, March 31	<u><u>234 316 17</u></u>	<u><u>251 367 42</u></u>	<u><u>1 780 009 65</u></u>	<u><u>1 762 296 36</u></u>

The accompanying notes are an integral part of these financial statements.

Totals	
<u>3/31/04</u>	<u>3/31/05</u>
203 722 57	230 590 79
<u>11 967 20</u>	-
<u>215 689 77</u>	<u>230 590 79</u>
42 952 80	44 308 92
3 425 47	3 587 46
4 271 34	3 838 87
12 700 49	11 355 92
37 135 26	30 388 17
620 00	620 00
25 782 22	24 330 55
<u>107 196 03</u>	<u>1 253 56</u>
<u>234 083 61</u>	<u>119 683 45</u>
(18 393 84)	110 907 34
<u>(77 157 65)</u>	<u>(77 157 65)</u>
<u>(95 551 49)</u>	<u>33 749 69</u>
1 034 41	1 895 77
<u>(37 152 50)</u>	<u>(36 307 50)</u>
<u>(36 148 09)</u>	<u>(34 411 73)</u>
(131 669 58)	(662 04)
<u>2 145 995 40</u>	<u>2 014 325 82</u>
<u>2 014 325 82</u>	<u>2 013 663 78</u>

TOWNSHIP OF PENTLAND
Luce County, Michigan

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
BUSINESS-TYPE FUNDS
Year ended March 31, 2005 and 2004

	Sewer Fund		Water Fund	
	3/31/04	3/31/05	3/31/04	3/31/05
Cash flows from operating activities:				
Cash received from customers	79 112 14	87 811 33	125 457 09	118 305 97
Cash payments to suppliers for goods and services	(166 977 75)	(50 317 68)	(24 153 06)	(25 056 85)
Cash payments to employees for services	(20 586 60)	(21 237 96)	(22 366 20)	(23 070 96)
Other operating receipts	11 967 20	-	-	-
Net cash provided (used) for operating activities	(96 485 01)	16 255 69	78 937 83	70 178 16
Cash flows from non-capital and related financing activities:				
Increase (decrease) in amounts due to other funds	87 000 00	13 837 27	(4 000 00)	(2 000 00)
Net cash provided (used) for non-capital and related financing activities	87 000 00	13 837 27	(4 000 00)	(2 000 00)
Cash flows from capital and related financing activities:				
Principal paid on revenue bond maturities	(7 000 00)	(7 250 00)	(11 000 00)	(11 000 00)
Interest paid on revenue bonds and equipment contracts	(5 000 00)	(4 650 00)	(32 152 50)	(31 657 50)
Net cash provided (used) for capital and related financing activities	(12 000 00)	(11 900 00)	(43 152 50)	(42 657 50)
Cash flows from investing activities:				
Interest income	458 05	660 92	576 36	1 234 85
Net cash provided (used) for investing activities	458 05	660 92	576 36	1 234 85
Net increase (decrease) in cash and cash equivalents	(21 026 96)	18 853 88	32 361 69	26 755 51
Cash and cash equivalents, April 1	44 978 20	23 951 24	37 515 48	69 877 17
Cash and Cash Equivalents, March 31	23 951 24	42 805 12	69 877 17	96 632 68
Reconciliation of operating to net cash provided (used) for operating activities:				
Operating income (loss)	(116 214 70)	21 040 33	20 663 21	12 709 36
Depreciation	19 272 49	19 272 49	57 885 16	57 885 16
Increase (decrease) in assets and liabilities	457 20	(24 057 13)	389 46	(416 36)
Net Cash Provided (Used) for Operating Activities	(96 485 01)	16 255 69	78 937 83	70 178 16

The accompanying notes are an integral part of these financial statements.

Totals	
<u>3/31/04</u>	<u>3/31/05</u>
204 569 23	206 117 30
(191 130 81)	(75 374 53)
(42 952 80)	(44 308 92)
<u>11 967 20</u>	<u>-</u>
<u>(17 547 18)</u>	<u>86 433 85</u>
<u>83 000 00</u>	<u>11 837 27</u>
<u>83 000 00</u>	<u>11 837 27</u>
(18 000 00)	(18 250 00)
<u>(37 152 50)</u>	<u>(36 307 50)</u>
<u>(55 152 50)</u>	<u>54 557 50</u>
<u>1 034 41</u>	<u>1 895 77</u>
<u>1 034 41</u>	<u>1 895 77</u>
11 334 73	45 609 39
<u>82 493 68</u>	<u>93 828 41</u>
<u>93 828 41</u>	<u>139 437 80</u>
(95 551 49)	33 749 69
77 157 65	77 157 65
<u>846 66</u>	<u>(24 473 49)</u>
<u>(17 547 18)</u>	<u>86 433 85</u>

TOWNSHIP OF PENTLAND
Luce County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2005

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of Pentland, Luce County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Township contain all the Township funds that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Pentland. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental and business-type funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Governmental Funds

TOWNSHIP OF PENTLAND
Luce County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Fund

This fund is used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer enterprise funds are charges to customers for services. The enterprise funds also recognize as operating revenues the tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

All purchases of materials are reflected in expense when paid in all funds.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The Township 2004 tax roll millage rate was .9522 mills, and the taxable value was \$31,245,481.00.

TOWNSHIP OF PENTLAND
Luce County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Capital Assets

Capital assets are defined by the Township as assets with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	50 years
Equipment	10 years

Compensated Absences (Vacation and Sick Leave)

Township employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

Post-employment Benefits

The Township provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Accounting Change

Effective April 1, 2004, the Township implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). Changes to the Township's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD&A) section providing analysis of the Township's overall financial position and results of operations has been included.

Government-wide financial statements (Statement of Net Assets and Statement of Activities) prepared using the full accrual accounting for all the Township's activities have been provided.

Capital assets in the governmental activities column of the Statement of Net Assets include net assets totaling \$10,000.00.

TOWNSHIP OF PENTLAND
Luce County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2005

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated three banks for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>312,258.05</u>

TOWNSHIP OF PENTLAND
Luce County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2005

Note 3 – Deposits and Investments (continued)

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	258 686 34
Uninsured and Uncollateralized	<u>230 894 41</u>
Total Deposits	<u><u>489 580 75</u></u>

The Township of Pentland did not have any investments as of March 31, 2005.

Note 4 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	336 807 93	Sewer	247 837 27
		Water	88 810 00
		Current Tax Collection	<u>160 66</u>
Total	<u><u>336 807 93</u></u>	Total	<u><u>336 807 93</u></u>

Note 5 – Capital Assets

Capital asset activity of the Township's Governmental and Business-Type activities for the current year was as follows:

	<u>Balance 4/1/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 3/31/05</u>
<u>Governmental Activities:</u>				
Land	10 000 00	-	-	10 000 00
Buildings	40 000 00	-	-	40 000 00
Equipment	<u>10 200 00</u>	-	-	<u>10 200 00</u>
Total	60 200 00	-	-	60 200 00
Accumulated Depreciation	<u>(50 200 00)</u>	-	-	<u>(50 200 00)</u>
Net Governmental Capital Assets	<u><u>10 000 00</u></u>	<u>-</u>	<u>-</u>	<u><u>10 000 00</u></u>
<u>Business-Type Activities:</u>				
Water and Sewer System	3 857 882 00	-	-	3 857 882 00
Accumulated Depreciation	<u>(810 840 20)</u>	<u>(77 157 65)</u>	-	<u>(887 997 85)</u>
Net Business-Type Capital Assets	<u><u>3 047 041 80</u></u>	<u><u>(77 157 65)</u></u>	<u>-</u>	<u><u>2 969 884 15</u></u>

TOWNSHIP OF PENTLAND
Luce County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2005

Note 6 – Sewer Revenue Bonds Payable

		<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Interest Rate</u>
Luce County D.P.W. Obligation Payable		8/1/76	201 250	5%
<u>Payable Fiscal Year Ended March 31</u>	<u>September 1 Interest</u>	<u>March 1 Principal</u>	<u>March 1 Interest</u>	<u>Total</u>
2006	2 143 75	7 500 00	2 143 75	11 787 50
2007	1 956 25	7 750 00	1 956 25	11 662 50
2008	1 762 50	7 750 00	1 762 50	11 275 00
2009	1 568 75	7 750 00	1 568 75	10 887 50
2010	1 375 00	7 750 00	1 375 00	10 500 00
2011	1 181 25	7 750 00	1 181 25	10 112 50
2012	987 50	7 750 00	987 50	9 725 00
2013	793 75	7 750 00	793 75	9 337 50
2014	600 00	8 000 00	600 00	9 200 00
2015	400 00	8 000 00	400 00	8 800 00
2016	200 00	8 000 00	200 00	8 400 00
Totals	<u>12 968 75</u>	<u>85 750 00</u>	<u>12 968 75</u>	<u>111 687 50</u>

Note 7 – Water Revenue Bonds Payable

<u>Due Date July 1</u>	<u>Series 1997A Principal</u>	<u>Series 1997B Principal</u>
2005	10 000 00	1 000 00
2006	10 000 00	1 000 00
2007	10 000 00	1 000 00
2008	10 000 00	1 000 00
2009	10 000 00	1 000 00
2010	10 000 00	1 000 00
2011	10 000 00	1 000 00
2012	10 000 00	1 000 00
2013	10 000 00	1 000 00
2014	15 000 00	1 000 00
2015	15 000 00	1 000 00
2016	15 000 00	1 000 00
2017	15 000 00	1 000 00
2018	15 000 00	1 000 00
2019	15 000 00	1 000 00
2020	15 000 00	1 000 00
2021	20 000 00	1 500 00
2022	20 000 00	1 500 00
2023	20 000 00	1 500 00
2024	20 000 00	1 500 00
2025	20 000 00	1 500 00
2026	25 000 00	1 500 00
2027	25 000 00	1 500 00
2028	25 000 00	1 500 00
2029	25 000 00	1 500 00

TOWNSHIP OF PENTLAND
Luce County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2005

Note 7 – Water Revenue Bonds Payable (continued)

<u>Due Date</u> <u>July 1</u>	<u>Series 1997A</u> <u>Principal</u>	<u>Series 1997B</u> <u>Principal</u>
2030	30 000 00	1 500 00
2031	30 000 00	1 500 00
2032	30 000 00	1 500 00
2033	30 000 00	1 500 00
2034	35 000 00	1 500 00
2035	35 000 00	2 000 00
2036	35 000 00	2 000 00
2037	35 000 00	2 000 00
Totals	<u>655 000 00</u>	<u>43 000 00</u>

The Water Fund revenue bonds require the establishment of a bond reserve account and a capital reserve account. As of March 31, 2005, the reserve accounts are as follows:

<u>Account</u>	<u>Required</u> <u>Reserve</u>	<u>Actual</u> <u>Reserve</u>	<u>Difference</u>
Bond Reserve	31 125 00	27 300 00	3 825 00
Capital Reserve	118 500 00	34 575 00	83 925 00

The Township of Pentland maintains that expenditures for capital items accounts for the difference in the capital reserve.

Note 8 – Deferred Compensation Plan

The Township of Pentland offers its employees two deferred compensation plans created in accordance with the Internal Revenue Code, Section 457. The assets of the plans are held in trust for the exclusive benefit of the participants and their beneficiaries. The assets may not be diverted to any other use. The administrators, Prudential and Nationwide Retirement Systems are agents of the Township of Pentland for the purposes of providing direction to the investment of the funds held in the account. The deferred compensation plan balances and activities are not reflected in the Township of Pentland's financial statements.

Note 9 – Pension Plan

The Township does not have a pension plan.

Note 10 – Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

TOWNSHIP OF PENTLAND
Luce County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2005

Note 11 – Segment Information for Enterprise Funds

The Township maintains two Enterprise Funds which provide sewer and water services. Segment information for the year ended March 31, 2005, is as follows:

	<u>Sewer Fund</u>	<u>Water Fund</u>
Operating revenues	111 868 46	118 722 33
Depreciation expense	19 272 49	57 885 16
Change in net assets	17 051 25	(17 713 29)
Operating income (loss)	21 040 33	12 709 36
Bonds payable	85 750 00	698 000 00
Net working capital	(188 643 93)	(64 201 44)
Net assets	251 367 42	1 762 296 36

Note 12 – Building Permits

The Township of Pentland does not issue building permits. Building permits are issued by the County of Luce.

TOWNSHIP OF PENTLAND
Luce County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended March 31, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property taxes	29 000 00	29 000 00	29 786 75	786 75
Other taxes – swamp tax	26 236 00	26 236 00	26 235 72	(28)
State revenue sharing	166 000 00	166 000 00	167 903 10	1 903 10
Charges for services:				
Property tax administration	5 000 00	5 000 00	12 609 68	7 609 68
Interest	4 000 00	4 000 00	3 220 49	(779 51)
Rents	1 300 00	1 300 00	2 050 00	750 00
Miscellaneous	3 000 00	3 000 00	5 087 50	2 087 50
Total revenues	<u>234 536 00</u>	<u>234 536 00</u>	<u>246 893 24</u>	<u>12 357 24</u>
Expenditures:				
Legislative:				
Township Board	2 350 00	2 350 00	1 582 40	(767 60)
General government:				
Supervisor	10 913 00	10 913 00	10 567 73	(345 27)
Elections	3 000 00	3 000 00	2 217 13	(782 87)
Assessor	17 313 00	17 313 00	15 181 90	(2 131 10)
Clerk	10 199 00	10 199 00	9 399 18	(799 82)
Board of Review	850 00	850 00	810 85	(39 15)
Treasurer	10 950 00	10 950 00	10 685 32	(264 68)
Building and grounds	20 000 00	20 000 00	16 977 89	(3 022 11)
Unallocated	55 360 00	54 121 00	45 134 89	(8 986 11)
Public safety:				
Fire protection	70 700 00	70 700 00	47 119 80	(23 580 20)
Public works:				
Highways and streets	5 000 00	5 000 00	2 080 00	(2 920 00)
Street lighting	4 500 00	4 700 00	4 696 83	(3 17)
Culture and recreation:				
Recreation	400 00	575 00	575 00	-
Other functions:				
Insurance	18 000 00	18 864 00	18 864 00	-
Contingency	5 000 00	5 000 00	-	(5 000 00)
Total expenditures	<u>234 535 00</u>	<u>234 535 00</u>	<u>185 892 92</u>	<u>(48 642 08)</u>
Excess of revenues over expenditures	1 00	1 00	61 000 32	60 999 32
Fund balance, April 1	<u>422 810 00</u>	<u>422 810 00</u>	<u>449 602 58</u>	<u>26 792 58</u>
Fund Balance, March 31	<u>422 811 00</u>	<u>422 811 00</u>	<u>510 602 90</u>	<u>87 791 90</u>

TOWNSHIP OF PENTLAND
Luce County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year ended March 31, 2005

Township Board:	
Wages	<u>1 582 40</u>
Supervisor:	
Salary	10 412 16
Supplies	<u>155 57</u>
	<u>10 567 73</u>
Elections:	
Wages	1 330 00
Supplies	538 62
Miscellaneous	<u>348 51</u>
	<u>2 217 13</u>
Assessor:	
Wages	10 412 16
Education and training	305 00
Manatron – tax roll	3 274 72
Postage and supplies	<u>1 190 02</u>
	<u>15 181 90</u>
Clerk:	
Salary	8 566 96
Supplies	208 89
Miscellaneous	<u>623 33</u>
	<u>9 399 18</u>
Board of Review:	
Wages	619 20
Miscellaneous	<u>191 65</u>
	<u>810 85</u>
Treasurer:	
Salary	7 161 39
Salary – deputy	2 137 68
Supplies	<u>1 386 25</u>
	<u>10 685 32</u>
Building and grounds:	
Wages	6 480 46
Supplies	3 057 49
Utilities	3 222 67
Repairs and maintenance	<u>4 217 27</u>
	<u>16 977 89</u>
Unallocated:	
Audit	4 200 00
Legal fees	8 538 21
Administrative deputy	25 904 27
Payroll taxes	5 717 67
Dues	<u>774 74</u>
	<u>45 134 89</u>
Fire protection:	
Contracted services	9 919 80
Hydrant rental	<u>37 200 00</u>
	<u>47 119 80</u>

TOWNSHIP OF PENTLAND
Luce County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year ended March 31, 2005

Highways and streets: Maintenance	<u>2 080 00</u>
Street lighting	<u>4 696 83</u>
Recreation	<u>575 00</u>
Insurance	<u>18 864 00</u>
Total Expenditures	<u><u>185 892 92</u></u>

TOWNSHIP OF PENTLAND
Luce County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year ended March 31, 2005

	<u>Balance</u> <u>4/1/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>3/31/05</u>
<u>Assets</u>				
Cash in Bank	<u>211 409 62</u>	<u>775 805 30</u>	<u>987 054 26</u>	<u>160 66</u>
<u>Liabilities</u>				
Due to other funds	10 202 26	42 814 33	52 855 93	160 66
Due to other units	<u>201 207 36</u>	<u>732 990 97</u>	<u>934 198 33</u>	<u>-</u>
Total Liabilities	<u>211 409 62</u>	<u>775 805 30</u>	<u>987 054 26</u>	<u>160 66</u>

TOWNSHIP OF PENTLAND
Luce County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
Year ended March 31, 2005

Cash in bank – beginning of year	<u>211 409 62</u>
Cash receipts:	
Property taxes	775 686 79
Interest	<u>118 51</u>
Total cash receipts	<u>775 805 30</u>
Total beginning balance and cash receipts	<u>987 214 92</u>
Cash disbursements:	
Township General Fund	52 855 93
Luce County	562 186 42
Eastern U.P. Intermediate School District	36 141 04
Tahquamenon Area Schools	335 745 27
Refunds	<u>125 60</u>
Total cash disbursements	<u>987 054 26</u>
Cash in Bank – End of Year	<u>160 66</u>

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

May 23, 2005

To the Township Board
Township of Pentland
Luce County, Michigan

We have audited the financial statements of the Township of Pentland, Luce County, Michigan, as of and for the year ended March 31, 2005, and have issued our report thereon dated May 23, 2005. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Township of Pentland's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Township of Pentland's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our study and evaluation disclosed the following condition that we believe to be a material weakness for which management believes corrective action is not practicable in the circumstances. Within the present plan of organization of the Township there is an inadequate control over cash transactions caused by an inadequate segregation of duties which is due to the limited number of office personnel employed. Such study and evaluation disclosed no conditions that we believe to be material weaknesses for which corrective action by management is practicable in the circumstances.

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Campbell, Kusterer & Co., P.C.

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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

May 23, 2005

To the Township Board
Township of Pentland
Luce County, Michigan

We have audited the financial statements of the Township of Pentland for the year ended March 31, 2005. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Township of Pentland in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Township Board
Township of Pentland
Luce County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

GASB 34 IMPLEMENTATION

The Governmental Accounting Standards Board issued a new reporting model for governmental units which was required to be implemented for the fiscal year ended March 31, 2005. The implementation of this pronouncement for the Township of Pentland began with the year ended March 31, 2005. The daily operations and recording transactions did not change significantly, however, the Township is required to maintain additional records for the year end adjustments to the final presentation format.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated March 31, 2005.

To the Township Board
Township of Pentland
Luce County, Michigan

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants